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Stuart Corner

IN THE NEWS THIS WEEK

As debate on some form of separation between, on the one hand Telstra's network assets and wholesale business and, on the other, its retail operations reaches fever pitch, the lines are becoming blurred. With true structural separation off the agenda, the 'separationists' seem to be trying to push the line as far as they can without requiring the creation of new corporate entities and the formal transfer of assets. This does not please Telstra. As Bill Scales put it: "It has all the elements that the ACCC called structural separation less than 12 months ago. I am inclined to think that if it looks like a duck, walks like a duck and quacks like a duck then it is a duck. This to me is structural separation under another name." stuart@exchange.com.au

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Problems, what problems?

In a hearing for the Senate Enquiry into the telecommunications regulatory regime, Telstra's Bill Scales has claimed that there is no need for telecoms competition regulation, that no reason has been put forward for operational separation and that there is no problem with regional backhaul pricing.

From Scales' comments, it appears that Telstra inhabits a parallel universe quite distinct from that occupied by most of the rest of the industry. Scales, group managing director, corporate and human relations, Telstra claimed:

- that competition has now developed to the point where there is no need for telecommunications-specific competition legislation;
- that Telstra has never introduced DSL services to an area in response to being pre-empted by another broadband service, but always as a result of its own estimates of demand;
- that the reasons for wanting structural, or operational, separation of Telstra have never been spelt out;
- that Telstra has no knowledge of the concerns service providers have over the cost of backhaul from regional Australia.

Scales also accused the ACCC of trying to undermine the regulatory regime in order to influence policy in favour of structural separation. Questioning Scales, shadow communications minister, Stephen Conroy, made the point that, even as the ACCC revoked the long-standing broadband competition notice it had maintained the view that "Telstra's conduct was likely to have been in breach of section 151AK of the *Trade Practices Act.*"

ACCC accused of undermining regulation

Scales responded saying: "...on the face of it, it looks as though we have a regulator that has decided that it wants to have structural separation of the company; and to ensure that it puts itself in the best position to argue the policy case for structural separation it will undermine—or at least the opportunity and moral hazard is there that it will undermine—the existing policy to ensure that its policy is implemented....If you have a regulator which is clearly determined to become involved in the policy debate and is clearly determined to ensure that its policy outcomes are achieved, then automatically what follows from that is the potential moral hazard of the regulator establishing outcomes [which] will ensure that that follows."

In a subsequent hearing, in Melbourne, ACCC chairman Graeme Samuel, was asked "Are you undermining the effectiveness of the regulatory system to advance the case for structural separation?"

He relied "No. We want to get it working as effectively as we can. In fact, we want to do ourselves out of a job and get competition working sufficiently that we do not have to regulate any more."

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Optus to trial Alvarion broadband wireless for businesses

Optus has announced plans to trial wireless broadband access services to businesses on the Gold Coast, using 'WiMax' technology from Alvarion, supplied by Siemens. Optus says the trial will "test the capacity and range of the service...[and will] help determine the number of base stations required for a commercial rollout as well as the number of users each base station is capable of servicing."

In December 2004, Optus commenced a wireless broadband trial for consumers using technology from UTStarcom.

Optus says it will make a decision regarding a full commercial rollout for a wireless broadband offering once both technical trials are completed. The Gold Coast trial will begin in mid 2005 and is expected to last six months.

When it announced its residential trial, Optus said it would launch the trial in February with a base station in Belmore, Sydney and had "selected to trial in the first instance a 'standards' compliant technology that can provide mobile high speed wireless data access and leverage Optus' continually expanding mobile 2G and 3G infrastructure rollout."

$50 million for urban broadband black spots

According to a report from AAP, the federal budget has allocated $50 million over three years to fund the rollout of broadband services in urban areas where problems with network infrastructure make it unlikely that affordable broadband will be offered commercially. There will be $10 million available in 2005-2006 and $20 million in each of the following two years. Applications from service providers are expected to open in the second half of 2005.

Econtech to advise on T3 sale methods

Finance minister, Nick Minchin, has announced the appointment of economic consultancy Econtech to investigate alternative selling methods for T3. Minchin said in a statement that Econtech would look at the possible use of methods used in other large-scale financial transactions, such as

Scales also claimed ignorance of other service providers' concerns about the cost of backhaul from regional Australia. Conroy said "people all over the country are going spare about the price," and asked Scales "How does Telstra determine the price it charges for backhaul transmission across certain routes?"

Backhaul price - not an issue

Scales responded by saying "We are actually not sure what the issue is. We have obviously been watching that and we have had nobody come to us with an issue around backhaul pricing."

When asked if Telstra had come to a view on the question of operational separation, Scales claimed ignorance of the rationale for such a move saying "The question which we are always asking ourselves is: what are we trying to solve for? It is not clear to us yet what the issue is that we are trying to solve...If one winds back a bit, if we have got a situation where there are high levels of competition with no clear evidence of any anti-competitive behaviour...why would the community want to go through a process which, however one wants to define it, will cost Telstra and the rest of the community a significant amount for the resources to do it?"

On the question of competition, Scales was adamant that it had developed to such an extent that part X1B of the Trade Practices Act was no longer required. He told the enquiry "...as markets have matured and competition has intensified, many elements of the 1997 regime have really become outdated. Some of the regulatory measures were only ever intended as short-term measures while competition developed. A notable example of that...is part XIB of the Trade Practices Act...primarily related to effectively addressing the abuse of market power and was really only aimed at Telstra...It was only ever intended as a transitional regulatory measure."

He suggested that "this committee's deliberations are quite opportune because it does give an opportunity for you to at least look at whether part XIB of the Trade Practices Act should be repealed or at least changed."

Beware of giant foreigners

In support of this contention, Scales said "there are now over 150 licensed carriers in the market competing with Telstra" arguing that "many of these competitors are vertically integrated and they are also horizontally integrated. There are many affiliates of powerful foreign-owned and even foreign government owned corporate multinationals. Some of them with whom we are competing today are actually larger than Telstra. These affiliates can draw on the extensive resources of those multinational entities when competing in the Australian market, and they do."

Conroy raised the issue of targeted DSLAM rollout by Telstra to regional centres in response to the arrival of new broadband players saying "[submitters to this enquiry] have made a number of comments about what they view as anticompetitive behaviour and conduct on Telstra's part...We have heard a number of claims from regional ISPs that Telstra has been using the federal government's HiBIS subsidy to gazump the roll-out of broadband infrastructure in regional areas. These ISPs have claimed that Telstra is targeting its DSLAM roll-out at areas where regional ISPs have recently installed broadband infrastructure."

tenders, for the sale of Australian government securities and at a Google-style share auction. The government has already selected UBS and Caliburn Partnership to act as business advisers for a scoping study into T3. Their report is due mid year.

Engin slashes VoIP calling rates

Broadband phone company, engin has announced "massive" reductions in its VoIP call rates. These include:

National call rate reduced by 50 percent from 10 cents per minute to 5 cents per minute; international call rates reduced to: 3.5 cents per minute from five cents for calls to Canada, China, Germany, Hong Kong, Ireland, New Zealand, Singapore, Taiwan, UK and USA and to four cents per minute to a further 26 international destinations.

Last month engin said it had 4000 customers and a target of 7,500 by mid 2005. Breakeven was forecast at 30,000 subscribers, a number it expects will be achieved by June 2006. It said that 50,000 customers would give it revenue of $40 million, EBITDA of $7 million and operating cash flow of $5 million.

Unwired signs Tecksel to tackle SME market

Unwired Australia has signed specialist technology distributor Tecksel Australia as a distributor saying this will help it ramp up its sales to the small business market. "The deal...is in response to a large number of enquiries from companies wanting to resell Unwired into the fast growing SMB market," the company said. Unwired claims to have around 250 resellers at present.

Australian ENUM trial to start in June

The ACA has chosen Melbourne-based AusRegistry International to run the first Australian trial of ENUM. AusRegistry will provide and operate a registry service which will involve providing links to data indicating the communications preferences for consumers who have registered their phone numbers.

ENUM makes Internet-based communications services accessible using only a single telephone number. Using ENUM, phone numbers are converted to Internet

This produced a flat denial from Scales and the contention that "In some ways it is not surprising that companies like us will look for where there is likely to be increased demand and that we will all go into that area roughly at the same time."

CCC unveils blueprint for reform

The Competitive Carriers Coalition has released its blueprint for the operational separation of Telstra, calling for a separate wholesale "group" "owning" infrastructure assets, but has dodged the issue of whether this should be a separately incorporated entity.

The CCC says its paper, *Operational Separation Framework,* "is the culmination of a series of discussion papers the CCC has prepared and circulated to policy-makers over the past six months [and] has been presented to the Federal Government as part of the CCC's response to the telecommunications competition issues paper released last month."

In it the CCC acknowledges that full structural separation of Telstra is off the agenda but contends that there is a need for "the clear separation of Telstra into two distinct organisations effectively infrastructure and wholesale, on the one hand, and retail, on the other that are required to conduct their relationships at commercial arms-length."

The CCC says that the existing Telstra Wholesale Division, which was recently relocated so that it reports to the CEO, is "merely window-dressing". It proposes that Telstra be required to establish separate groups: Telstra Infrastructure and Wholesale Services (IWS) Group and Telstra Retail Services Group.

Telstra IWS Group would report through its own chief executive to its own board and Telstra IWS and Telstra Retail Groups would report to the Telstra Corporation main board in terms of corporate metrics and achievements. The main board would not be permitted to be a conduit for information between the two groups.

Such a structure, however, is likely to be inconsistent with corporation law. The CCC notes that "specific legislation will likely be required to effect this and to modify the operation of the current obligations of directors in relation to shareholders to that extent."

While it does not raise the issue of IWS being a separately incorporated entity, the CCC suggests that the group "shall own all of the following assets of Telstra Corporation...all transmission, switching, routing and signalling equipment associated with the provision of network service ... all systems for the management,

addresses, allowing end users to link one or more communications services to their telephone number and providing a single point of contact for services such as VoIP, email, presence and instant messaging.

The trial is expected to run for a minimum of a year and will be open to anybody interested in testing applications or services with ENUM.

AusRegistry intends to start registry operations on 6 June and presently has two registrars, Enetica and AARNet signed on for the trial. Further information at http://www.enum.com.au

PatchLink opens Sydney HQ for ANZ

PatchLink Corporation, a provider of enterprise-wide security patch, vulnerability and compliancy management software, solutions and services, has opened an office in Sydney to serve the Australia & New Zealand markets. Peter Marini, previously sales manager for security solutions with Ceanet, has been appointed sales director for Australia and New Zealand. He will also manage Patchlink's existing alliances with Novell and PriceWaterhouseCoopers.

Novell is an OEM partner of PatchLink and has integrated Patchlink's flagship product, Patchlink Update into its ZENworks product line. Patchlink Update, offers corporate, education and government organisations a program for identifying patch and non-patch-related vulnerabilities and gives IT administrators "the ability to effectively deploy patches, as well as monitor and

$10,000 prize for telecoms innovation

The Telecommunications Society of Australia (TSA) has launched the John and Yvonne Almgren TSA Innovation Award for an individual who has demonstrated a high level of innovation and ingenuity of clear market value in telecommunications or a closely related field. The innovation must be "of significant immediate or potential impact for the industry in Australia" and "of a kind to support a continuing high global reputation of Australian Telecommunications."

Telstra to offer Treo 65

Telstra is now offering the PalmOne Treo 650 smartphone on its GSM network, at support and supervision of networks ... all billing systems and data bases associated with the billing of carriers and service providers for services provided to them ... all assets associated with the provision of any service declared by the ACCC, or associated with any 'core' service that relies on a declared service ... all facilities (including buildings and parts of buildings) established to support or house equipment described... above, including, but not limited to, ducts, trenches, towers, masts, poles, exchange buildings, and network equipment rooms."

The HFC assets associated with the provision of services by Foxtel "should be separated off entirely from Telstra into a separate company."

Market power will remain

The CCC notes, however that it proposed operational separation model would not remove Telstra's market power. "Telstra also enjoys market power at the retail level that derives from its historic ownership of all customer relationships, going back to its role as the publicly owned telecommunications monopoly provider. Telstra has shown that it is able and willing to leverage this incumbency to the detriment of competitive entry, exclusively of the market power it derives from its network ownership."

The CCC sees this power being extended "through the acquisition and use of control over, for example, content", and it notes that "Operational separation as proposed in this paper does not address this source of market power."

industry

Optus takes the wraps of business channel programme

Eleven months after it was initiated, Optus Business this week took the wraps off its channel partner programme, with a press briefing in which it revealed that it had signed up around 80 partners to date and at which it gave some insights into its approach to the market.

Peter Williamson, general manager, partner and channel management, who was appointed a year ago to launch and run the programme, said it had achieved 150 percent of its revenue target for the year ended 31 March 2005 and that the 2006 target was double this, which he claimed was "eminently do-able". Beyond that, he said the unit had a "steep five year aspirational goal".

With Telstra as the largest player in the market, he acknowledged that most of Optus' gains would have to be achieved at the expense of Telstra.

The move to go public about the programme was prompted by some of the channel partners who wanted to make announcements about their relationship with Optus, Williamson said. And simultaneous with the briefing Hewlett Packard issued a statement announcing its appointment as an Optus channel partner (see below).

From eight to 80 partners in a year

When Williamson joined there was an established channel

a retail price of $1,199. It is also available at $99.92 per month over 12 months, $66.61 over 18 months or $49.96 per month over 24 months with service contracts.

O2 launches XDA II. "the fastest PDA"

O2 has launched the Xda IIi, billing it as "the fastest PDA-phone in the market", thanks to its Intel XScale PXA 272 520MHz processor. It has a 1.3 mega pixel camera, wireless LAN and landscape view for all applications. It has a recommended retail price of $1,599.

Brightpoint takes a dim view on PalmOne

Brightpoint, one of the world's largest distributors of mobile phones, has announced a global partnership with Microsoft for joint marketing and promotion of the Windows Mobile Platforms and as a result Brightpoint Australia has announced that it will focus its efforts solely on Microsoft and Symbian-based connected devices and sever its relationship with PalmOne on 31 May 2005.

NEW ZEALAND

Fisher & Paykel picks AT&T for global network

Whitegoods manufacturer, Fisher & Paykel Appliances, has chosen AT&T to provide managed global network "to support the aggressive business expansion...especially in North America where the company is enjoying unprecedented growth."

The New Zealand based company acquired Dynamic Cooking Systems of California late last year and now has manufacturing, sales and warehouse facilities in Vancouver Canada, as well as five states in North America, manufacturing and sales operations in Australia and a presence in Singapore, the UK, and Europe: 19 remote locations in total. All locations access the company's data centre in New Zealand for every aspect of its business, including all transactions for sales and distribution.

INTERNATIONAL

Marconi cuts 800 jobs & re-organises

Marconi has announced plans to slash 800 jobs and set up "a new organisation operation in Optus Business, but with only eight channel partners. That has now grown to over 80. "In the last 11 months we have been able to sign alliance programmes with some of the most significant players in this space," Williamson said. "These include Nortel, NEC, Mitel, Alcatel, Avaya, IBM ITS, Fujitsu and Hewlett Packard."

Exchange understands that a partnership with Cisco is likely to be signed shortly: on the day Optus held its briefing a "Cisco Day" was underway at Optus with presentations from a number of senior Cisco executives, including CEO Ross Fowler.

Williamson said that, whilst Optus had been very successful at the corporate end of the market, its success with smaller business had been much more modest (it has been a criticism levelled at Optus since its earliest days that it has failed to live up expectations that it would provide strong competition in the mid and small business markets.)

A feature of the new programme is its three distinct categories of channel partner: the Alliance Programme, serving end users with more than 500 employees; the Synergy Programme for 200-499 employee customers; and the Enterprise Programme for customers with 50-199 employees. Some partners are active in more than one of these categories.

Businesses with less than 50 employees are served primarily by Optus' recently established Consumer and SME division, headed by Scott Lorson. Williamson has a team of around 30 people under him and reports to the head of sales for Optus Northern region, Dick Dewhurst.

Sell-with and sell-through

Under the Alliance Programme Optus predominantly sells in collaboration with the partner, in Enterprise predominantly a sell -through approach is used, and Synergy is split 50:50 between these two.

Synergy is "the most important programme because it is the most pervasive in terms of convergent technologies," Williamson said. "We have found that for medium sized enterprises, the ability to not only deliver IP technologies but to deliver a systems integration capability is of paramount importance."

Williamson said that, with the Alliance partners "we are working heavily to build solutions for complex clients and build bundles that we can take to market through the other programmes."

The enterprise programme "is really targeted at those PABX vendors maintainers and installers who have a very thick relationship with the customer where we are able to provide the last piece of the jigsaw puzzle, including finance required."

There are presently 10 Alliance partners, 43 Synergy partners, and 37 Enterprise partners. Williamson said that Optus would likely add three or four more Alliance partners and very few new Synergy partners but would probably double the number of enterprise partners.

The total number of partners was "not a lot in comparison to other players," Williamson said, adding that quality not quantity was Optus' aim. Exclusivity is not a requirement but

structure that will ensure that the company remains focused on delivering its commitments to customers whilst improving its competitiveness." The move comes in the wake of Marconi missing out on a share of BT's massive 21CN next generation network project, announced 10 days ago.

Marconi's current product units will be combined with its regional business organisations "in order to create geographic centres of excellence based on the different product groupings." The company says it will continue to market its full product range worldwide. The four new business groups are; Softswitch (Northern Europe); Wireless (Central Europe); Optical & Access Networks (Southern Europe); and Data Networks (North America).

Marconi will provide an update on the financial impact of these cost reduction initiatives on 17 May, when it will announce its Preliminary Results for the year ending 31 March 2005.

Ericsson to stop seeking CDMA contracts

Ericsson has announced that it will stop looking for new contracts for its CDMA infrastructure and as a result will close its US headquarters in San Diego with the loss of 250 jobs over the next six months. Commenting on the announcement, Ovum said: "At first sight this is surprising news as Ericsson has been gradually improving its position in CDMA infrastructure over the last few years. It has also been working on economies of scope by using a common platform across its base stations in all technologies, so that . However, according to the company, the market for CDMA infrastructure has changed in the last year and is now less attractive for Ericsson. The changes come from 2 areas. First, consolidation in the US market will mean that there are fewer opportunities for it. Second, the company's estimates of spending on greenfield networks (completely new operators) are smaller.

This does not mean a complete withdrawal from business with CDMA operators. Ericsson will continue to support its existing customers. And it will, of course, look to sell its core network, service layer and professional services into CDMA operators."

"we have growing band of exclusive partners...currently about 10 of them are exclusive...primarily in the Synergy space where convergence is most important," Williamson said. He claimed "We are far more committed to convergence than other players in the market."

• Hewlett Packard becomes an Optus channel partner

Hewlett-Packard (HP) has announced a new alliance partnership agreement with Optus unde which the two companies will be selling HP and Optus solutions to enterprise and small and medium-size business (SMB) companies throughout Australia. HP says the agreement outlines two separate sales opportunities for HP and Optus with 'sell-with' and sell-through' facets.

"During sell-with, Optus and HP will enter jointly into tenders involving a range of converged telecommunications and IT requirements in order to offer an integrated solution."

Sell-through "offers a separate set of bundled solutions for corporate and SMB environments...[that] can include everything from IT hardware and telecomms provision through to a full managed infrastructure service including all hardware, application management and integration." This option also includes vendor financing.

HP says that it and Optus will use their "wide ranging channel partner networks to sell these solutions, giving common partners an opportunity to also be involved in the alliance programme, and offering further choice to customers."

• Coincidence? Telstra Business launches customer newsletter

The day before Optus went public on progress with the channel partner programme of Optus Business, Telstra Business put out the first edition of *One Voice*, a monthly customer newsletter delivered by email. In that, Telstra announced that it has appointed NEC Business Solutions and Panasonic Australia as new partners to take its portfolio of voice solutions to the small to medium business market. Ericsson, Mitel, Alcatel and LG Aria were named as existing partners.

technology

NICTA focuses R&D on 'last metre' and PONs

National ICT Australia Ltd (NICTA) has announced research projects into the 'last metre': the final connection to user devices, and into passive optical networking for FTTP.

NICTA has announced a three year, $3.6 million agreement for a collaborative research project with the Western Australian Telecommunications Research Institute (WATRI) to focus on the development of technologies to improve information transmission.

The 'Last Metre Problem' project (LaMP) forms part of NICTA's *Trusted Wireless Networks* priority challenge. It aims to develop technologies that transmit information to and from people in a transparent way without restricting mobility or forcing them to change habits. It focuses on the last link or 'last metre' channel in

TECHNOLOGY

Bluetooth and ultra-wideband technologies to combine

The Bluetooth Special Interest Group (SIG) has announced its intention to work with the developers of ultra-wideband (UWB) wireless technology to combine "the strengths of both technologies". It says the decision will allow Bluetooth technology "to extend its long-term roadmap to meet the high-speed demands of synchronising and transferring large amounts of data as well as enabling high quality video applications for portable devices" and "UWB will benefit from Bluetooth technology's manifested maturity, qualification program, brand equity and comprehensive application layer."

Juniper launches multi-function security devices

Juniper Networks has launched two firewall/VPN systems – the ISG 2000 with integrated intrusion and prevention capabilities and the ISG 1000 – and introduced six new appliances and a software upgrade for its intrusion detection and prevention (IDP) product line. The move follows Cisco's announcement last week of its ASA5500 series of multifunction security appliances.

Juniper says the ISG 2000 firewall/VPN with integrated IDP is designed to provide enterprise, carrier and data centre customers against worms, Trojans, spyware and other emerging threats.

"Their unique processing architecture and modular design are critical to achieving scalable performance and security functionality that can help protect networks now and into the future," said Andrew Coward, vice president of engineering for Asia Pacific, Juniper Networks.

Systimax adds WLAN to structured cabling products

Structured cabling manufacturer, Systimax Solutions, has introduced the Systimax AirSPEED system, an enterprise wireless LAN, claiming that the move makes it "one of the first structured connectivity vendors to offer an entire WLAN solution. It combines wireless access points with signal enhancing antennas information transmission; the small zone physically surrounding a person.

Professor Rod Kennedy, Program Leader for Wireless Signal Processing at NICTA, said: "The last metre channel in information transmission is a problem because in the long chain of transmitted information, where the information destination is a person, the last link is a very dynamic channel which cannot rely on wires nor a physical connection."

The project is initially targeting voice and speech processing applications on portable devices such as (3G/4G) mobile phones, handheld PDAs and laptops, other VoIP applications and hearing aids. Future directions for the project include producing microchips and minichips to free users from traditional hardware-based wireless communication devices.

The project will address issues such as the amount of information that can be transferred to a device worn by a human, how small these devices can be and where they should be placed. LaMP will target technologies that are likely to have an impact in the mass markets of the home and office.

NICTA aims to revolutionise PONs

Under the PON project, NICTA researchers are developing new technologies with the claimed potential to reduce the cost of providing gigabit-speed optical connections to offices and home users. The Broadband to the User (B2U) project, part of the Network Technologies program at NICTA's Victoria Laboratory, is creating an array of technologies to improve passive optical network (PON) technology and support "graceful evolution towards optical access networks over the next decade.

The B2U project has patented technology that allows virtual private network (VPN) connections between customers serviced by a PON. It has developed technologies to help reduce the cost of the opto-electronics required at customer premises. The project is also working on technologies that support the integration of wireless interfaces with the PON infrastructure.

In standard PON networks, information cannot be exchanged between customers on the same network without going through a central access point. The technology being developed by the B2U project modifies the network to support a full private local area network between users without going through the central access point.

According to NICTA, "Another problem with standard PON networks is that they do not provide any mechanism for protecting against fibre cuts and network unit failures, which can result in a complete shutdown if a fibre is cut in the feeder network. To remedy this, NICTA researchers have developed solutions for enabling protection and restoration capabilities using low-cost optical switching technologies."

The B2U project has also devised a multi-user access mechanism that allows services to be assigned classes and to queue and service classes differently according to their specific requirements. Researchers have also developed an EPON-compliant technique that supports the bandwidth required by each user to be dynamically assigned.

and rack-mounted power over ethernet devices to enable mobility, productivity, and network security in the workplace.

According to Ispran Kandasamy, vice president and managing director, Systimax Solutions Asia Pacific. "In addition to providing the convenience of a single source, customers will now be able to deploy a wireless system at the same time they install the general LAN infrastructure, which we believe will deliver reduced costs for the customer."

Nokia throws open its DVB-H air interface spec

Nokia has announced that it will make the air interface specifications of the Nokia mobile TV solution publicly available for interested parties. The Nokia mobile TV solution is based on available open standards such as the DVB-H radio layer standard, which was approved in 2004 by the European Telecommunications Standards Institute (ETSI). Some additional application layer specifications are in the process of being finalised by standardisation bodies.

The Nokia mobile TV solution comprises terminals, servers and network components. Currently mobile TV services using DVB-H technology are being piloted in many countries around the world. Commercial mobile TV services are expected to start in 2006.

Clarification: Optus 3G trial

In *Exchange* two weeks ago we said of the Optus 3G network, launched that week in Canberra "Neither is the Optus (3G) launch (full blown): it's pre-commercial with selected trial customers and no tariffs and although there are handsets the focus seems to be very much on data."

Optus says that "In reality the Optus 3G network in Canberra is a production network and the customers are paying customers. We have not released pricing as pricing has been individually negotiated with each customer – as is the usual practice when dealing with corporate and Government customers."

However the term "pre-commercial" was how Optus described the service, in its press release.

Digital gateway déjà vu

Telstra is reported to be planning to get into the smart home market and earn billions from a box that will act as a home gateway to a variety of value added services. It has tried this before.

According to *Smarthouse News*, Telstra is set to launch a digital home gateway, as "the first move in a strategy that could net the carrier billions in revenue from both content and the installation and rental of digital home hardware spanning computing, entertainment, communications and automation". The article went on to say that the gateway would "link broadband and IP based services with entertainment, computing automation and communication."

The story may well be true, except for one point: this is not Telstra's first move in this direction. Back in 1999 *Exchange* reported: "Telstra has used technology from Perth company IHG Limited in a demonstration of home appliance networking using the Internet and Wireless Application Protocol (WAP). The Telstra demonstration, at a private house north of Sydney used two IHG products - the Internet Home Gateway and the Jeeves home automation system."

So what happened? For Telstra, everything went quiet and IHG soared to great heights, briefly, before crashing and burning, but now appears to be putting on something of a phoenix act. And Jeeves is alive and well, although he has changed his name.

Back in 1999 ASX-listed IHG claimed to have "the world's first commercially available residential electronic gateway able to monitor and control multiple utility services in the home". Its products were sold by Harvey Norman, exported to the US and marketed in Greece through a joint venture.

The company claimed a market potential of hundreds of millions of dollars. Much of its hopes were unfulfilled. It was delisted from the ASX but lives on under the name Smartworld Enterprises and still claims to be "the world's leading developer of home automation products."

Jeeves boxed and unwired

The original Jeeves controller has transformed into "a powerful automation tool now known as ThinkBoxx" (There is even a ThinkBoxx Unwired which, given its role in the connected household is likely to put SmartWorld into conflict with Unwired Australia, especially, if like, the Unwired modem, it ends up in Harvey Norman!). There is presently zero information on the SmartWorld website about is success in the marketplace.

But another Australian company that was active in this market a few years ago has had some success, albeit not in Australia. Portus, with its Dias gateway product was chosen in 2003 by the Infocomm Development Authority of Singapore for a $A800,000 trial in Singapore. The Singapore Government subsequently took a minority stake in the company which required it to be domiciled in Singapore.

Managing director, Tim Lindquist, told me this week that the trial had been completed successfully late last year with around 40 homes served and the company was now "working towards a commercial rollout through negotiations with telecommunications carriers." NDAs precluded him from giving any more details.

Portus is not a potential candidate for Telstra project at present: Lindquist said the company's focus was its immediate region and he was unaware of what Telstra was doing.

Despite all the hype put out by IHG in the late 90s, the market is still very much in its infancy. Lindquist estimates that the Singapore trial was probably one of the most advanced intelligent home gateway implementations in the world.

An idea whose time has come

Of course in 1999 broadband penetration was almost zero, the idea of web-based interfaces to a wide range of devices and applications was still in its infancy. In short the market should now be far more receptive.

Back in 2003, in *Ex Cathedra,* I quoted the then head of Cisco Australia Terry Walsh, saying "The home is the next multi-billion dollar frontier for many players, particularly telecommunications providers, utilities and others that are seeing their traditional services quickly become commodities... A large proportion of consumers will soon be connected to the Internet all the time...We believe this will lead to the emergence of smart companies that focus on delivering imaginative and profitable services to people in their homes."

I suggested then that "He who controls the home gateway to these service owns the customer," but noted that "Nothing much has been heard from Telstra along the lines of its 1999 demonstration." Finally it seems these ideas might be being put into practice.

Ex Cathedra, meaning "from the chair", is meant to be a forum for authoritative comment by industry stakeholders, rather than an outlet solely for my views. I would welcome contributions. If you have views you would like to air please email me: stuart@exchange.com.au

Regulatory bias

BT has advised Ofcom that the way out of the maze of telecommunications competition is fundamentally about improving the incentives to undertake network expansion and upgrades. BT wants "a bias towards investment".

BT has done something our incumbent gorilla is resisting: it has agreed to operational separation, "voluntarily" as BT puts it but actually only after Ofcom made clear that the consequences of not doing so would likely be more stringent regulation. BT has cleverly added a rider to its proposal, making it subject to Ofcom's committing to a number of changes, including especially those that recognise that network "investment is the most significant problem" that faces the industry. That should be no surprise. Capital investment in the network industries is hampered by the uncertainty created by competition reforms. When the regulator is too pro-competition, especially when it is too pro-new entrants, it tempts competitive capital investments in parallel rollouts, as we saw across the world during the 1990s. BT claims that "many of the most powerful potential investors have bitter memories of the cost of simultaneous investment" from that time, a claim that is also relevant in Australia and accounts for the reluctance of even big companies to roll out network infrastructure that would seriously compete with Telstra.

Too much competition, too much regulatioin

However, too much the other way can also hamper investment. If the regulator relies too heavily on what in British parlance is called *ex ante* regulation (meaning regulation that applies before the event and so is different from use of anti-monopoly law which is applied after the event), it means, inevitably according to BT, pre-set terms and prices for access which will discourage upgrades. It seems in Australia we have too much of both: too much talk of and reliance on competition and too much regulation so that our biggest firms are cutting back on their capital programs.

If it is obvious to BT (and to FFT) that a lack of new investment is the inherent weakness in the competition reforms, how could it have been overlooked when contemplating those changes? Competition theory has one particular blind spot. It is based on the premise that, in response to competitive pressures, firms make adjustments to output, investment and prices, so settling on optimal outcomes.

It's a bit like Darwinian evolution in that the process is made up of many small, incremental changes. Indeed, all the formal proofs of the superiority of market outcomes rely on assumptions of so-called divisibility; without it there can be no presumption that competition gives superior outcomes. The difficulty in telecommunications is that network investments cannot be optimised in this way because small, incremental steps are impossible and, as BT has put it, "regulators must take this lumpiness … into account". In other words, you can't sensibly build half or a tenth of a network or adjust an existing network by fractions. Investors must commit to the full thing up front. It is not even primarily because the network is not technologically divisible, it is also that competing corporate strategies require large, sunk investments.

One plus one can equal none

Consider that if one company invests in a new network and another doesn't then the one has so-called first mover advantages, effectively forestalling any subsequent competitive roll out. If one company does and so does the other, the market is grossly over-supplied, prices tumble and the viability of both investors is called into question. Indeed, in telecommunications and other network industries, there are instances where the result of simultaneous investment is that both network operators go broke, leaving users without a working service.

BT says it will not just undertake operational separation but also invest in lots more broadband rollout if only Ofcom can clearly set out its "approach to future telecommunications regulation". It's not unreasonable. Regulators have for too long been able to have one foot in each camp: saying yes to competition over regulation but then trying to micro-manage outcomes so that we end up with the worst of both worlds – an oxymoronic deregulating regulator. I say get competition out of network assets; restructure Telstra so that its publicly owned bits can run the networks and roll out the last mile fibre; regulate access to the networks sensibly and consistently; and, let the other so-called carriers do the retailing bits. Simple.

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The week in retrospect

There were full year results from SingTel/Optus this week, and third quarter results from Telecom NZ/AAPT; the war of words between Telstra and Unwired continued.

SingTel reported its annual results, including those for Optus, just after *Exchange* went to press last week, closely followed by Q3 results from Telecom New Zealand on Friday, which included results for AAPT.

Optus reported an underlying net profit of $648 million, up 39 percent for the year ended 31 March. Excluding the previous year's C1 Defence contract, revenue for the year grew by 8.9 percent to $6.9 billion. Operational EBITDA grew 16 percent excluding C1 to $2.2 billion and the EBITDA margin continued to expand to 31.1 percent. Free cash flow grew by 12 percent to $1.2 billion. Cash capital expenditure for the year was $811 million. The capex to revenue ratio was 12 per cent.

Optus' wholesale revenue fell by 9.4 percent after the completion of some one-off low margin business. However, Wholesale data and IP revenue recorded growth of 36 percent. Combined Optus Business and Wholesale EBITDA margin in the current quarter fell slightly to 27 percent reflecting the impact of continued price competition in these two markets.

Optus Consumer and Multimedia broadband revenues grew 68 percent. Optus claims its retail broadband market share now exceeds 20 percent.

Overall, fourth quarter revenues were flat with strong broadband growth offset by declines in traditional products, including dial-up revenues which fell 23 percent. Bundling rates continued to improve with almost 70 percent of HFC telephony customers and nearly 50 percent of local call resale customers taking more than one Optus product.

Telecom NZ: more investment needed

Announcing the company's Q3 results, Telecom NZ CEO, Theresa Gattung, was reported saying: "Investment in the growth areas outlined is likely to result in reported earnings towards the lower end of the current market range for both 2005 and 2006."

Telecom reported net earnings after tax of $NZ650 million for the nine months to March 31, 2005, an increase of 8.9 percent on the corresponding period in 2004. Adjusted net earnings for the period were $NZ607 million, an increase of 9.0 percent. Reported earnings during the nine months included five abnormal items.

Gattung said the group's earnings performance reflected good progress in the company's key focus areas, with mobile, broadband and ICT all performing strongly over the nine month period.

AAPT result "disappointing"

In Australia, TNZ subsidiary AAPT continued to "disappoint analysts" reported *The Australian*, saying that Gattung had admitted that the Australian market had been tougher than the company expected since it bought AAPT in 2000. AAPT's operating revenue fell by two per cent to $A962 million for the nine months to March 31, compared to the prior corresponding period.

Gattung was reported saying that AAPT was targeting a return to revenue growth by next financial year and that "We are committed to our presence in Australia."

According to AAP (the news agency), "AAPT is now focussing on its two core markets: bundled fixed line and Internet products for residential customers, and Internet telephony and data products SMEs...[and] To help with this shift, Telecom NZ is committing $NZ105 million this financial year and $NZ140 million next year in capital expenditure for the Australian business."

Telstra spreads Unwired confusion

Telstra launched a promotion for its WiFi hotspot services under the catchline "Get Unwired" angering Sydney based wireless broadband service provider, Unwired Australia. The *Australian Financial Review* quoted Unwired chairman, Peter Shore, accusing Telstra of marketing trickery and saying that the copycat approach went further. "Our campaign is three easy steps, they have got two easy step...They should be embarrassed." No response from Telstra was reported.

This latest ploy follows Telstra's Ted Pretty taking a swipe at Unwired, Personal Broadband and other wireless operators in a lunchtime address, describing them as in danger of becoming "stranded assets".

AT&T not for Telstra

Last week *The Australian* reported that Bill Hannigan, who it described as AT&T's "president and chief operating officer" was in line to be CEO of Telstra. However, AT&T has told Dow Jones that this was not true.

According to Dow Jones, Greg Brutus - regional public relations director of AT&T, based in Hong Kong - said: "The rumour and speculation is completely wrong about Bill Hannigan joining Telstra...."He (Hannigan) is fully engaged in his work for our company."

Ten Years Ago...

From Exchange 6 May 1995

- **Before the Internet there was On Australia**

On Australia, the joint venture between Telstra and Microsoft Australia, claims that 260 companies have signed up as content providers for its proposed online service. Confidentiality agreements between the companies and On Australia specify that their content is to be kept under wraps until after the launch, due in the third week of August. Two companies that have declared their participation are US media producer, Big Hand, which will market a global childrens' service, Planet Youth, and local insurer MLC Life.

- **Such promise from Stanilite**

Stanilite claims to be the first manufacturer in the world to demonstrate base station technology for the soon to be finalised APCO-25 digital trunked mobile radio standard. The company hopes to leverage its lead to take a substantial share of the US market which is expected to grow rapidly as soon as the standard is finalised...Final acceptance of the standard is due to take place at APCO's annual meeting in Detroit in August where Stanilite will also have its base station on display.

The company over-stretched itself trying to develop export markets and went into receivership. Its APCO-25 technology is now owned by ASX-listed Westel.

- **End of Telecom NZ's regional aspirations**

Telecom New Zealand has revised its strategies for seeking Asian business opportunities and is concentrating on marketing itself as a carrier of transit traffic. Chief executive, Roderick Deane, said at the unveiling of Telecom NZ's annual results that it had withdrawn from paging projects in India in March and that other investment opportunities in Indonesia or the Philippines did not warrant further action at this stage.

Appointments...

- **Alcatel appoints general manager for triple play**

Alcatel has appointed **Nick Whitehead** general manager triple play in the Asia Pacific region, to be responsible for "all major aspects of triple play including go-to-market activities and solution development ... [and to] work closely with telecom operators in their triple play strategy development." He will be based in Sydney.

He has previously senior positions at Alcatel in R&D, operations, project management, sales and account management, business development and business management.

- **Netgear names two to run Australian business**

Netgear has created two new senior positions "to better support its growing Australian operations". **Sue Ponder,** who has worked for Netgear for the past seven years, has been made director of retail and distribution, responsible for managing Netgear's Australian reseller business. **Ryan Parker** has been appointed director of partnerships and services, expanding the scope of his previous position as national ISP account manager. He has worked for Netgear for the past five years.

Ian McLean will continue in his role as Asia-Pacific vice president, but will leave the running of daily operations to the new directors, "enabling him to better focus on the strategic direction of the company".

Mergers & Acquisitions...

- **ScanSoft to acquire Nuance**

Speech recognition specialist ScanSoft is to acquire Nuance Communications for around $US122 million in cash and stock. However, the merged entity will assume the name 'Nuance'.

When combined the two companies aim to "make speech-enabled systems, devices and interactions as effective and ubiquitous as the Web".

Between them they claim to automate more than 20 million contact centre and directory assistance calls per day; bring the power of speech to millions of people through mobile phones, automobiles, consumer electronics and games; and provide dictation solutions for more than 3,000 hospitals and more than one million consumers worldwide.

- **Trend Micro to buy Intermute**

Trend Micro's US subsidiary is to acquire InterMute, a developer of anti-spyware products, to "further enhance its anti-spyware solutions for business customers and consumers". Trend Micro will offer InterMute's stand-alone anti-spyware products under the Trend Micro brand and will integrate InterMute's anti-spyware capabilities into its enterprise, SME and consumer solutions.

- **ADC buys OpenCell to boost wireless technology**

ADC has acquired, for $US7.25 million in cash, Crown Castle International subsidiary OpenCell, a manufacturer of digital fibre-fed distributed antenna systems (DAS) and shared multi-access radio frequency network equipment. ADC says the acquisition will allow it "to incorporate OpenCell's technology into ADC's existing Digivance wireless solutions, which are used by wireless carriers to extend network coverage and accommodate ever-growing capacity demands."

OpenCell, based in Nashua, New Hampshire was founded in 2000. It employs approximately 32 people. OpenCell has commercially deployed its products with several customers including three of the largest wireless operators in the US.